

**DRAFT**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**ENERGY DIVISION**

**ID #12033  
RESOLUTION E-4574  
April 18, 2013**

**R E S O L U T I O N**

Resolution E-4574. San Diego Gas & Electric requests approval for the sale of license rights to intellectual properties to GridSense, Inc.

PROPOSED OUTCOME: This Resolution approves the sale of license rights to intellectual properties under the terms specified.

SAFETY CONSIDERATIONS: None.

ESTIMATED COST: The transaction will have no impact on ratebase, and may result in income to ratepayers and shareholders.<sup>1</sup>

By Advice Letter 2425-E, Filed on December 4, 2012.

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**SUMMARY**

Pursuant to Section 851 of the California Public Utilities Code, San Diego Gas & Electric Company (SDG&E) filed Advice Letter (AL) 2425-E on December 4, 2012, requesting the California Public Utilities Commission (Commission) approve the sale of license rights to intellectual property (U.S. Patent No. 8,024,077) for a product to monitor and control electric loads at the consumer level through distribution transformers to GridSense, Inc. (Licensee). The intellectual property comprises a system and computer program product for implementing a smart transformer. The system and computer program product are configured to monitor and control electric customer load and generation in order to optimize the performance of residential distribution transformers.

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<sup>1</sup> SDG&E is requesting authority for the sale of intellectual property rights. SDG&E states that in no event will ratepayers share in any loss.

The intellectual property was invented by SDG&E, but the utility stated it does not believe that, as a regulated utility, it is the best party to develop and market the technology. No protests were filed to the advice letter.

This Resolution approves the grant of the License, and the payment of royalties subject to the following terms:

- In exchange for an exclusive license to use SDG&E's IP in the development and marketing of smart monitoring and control systems incorporating SDG&E's IP ("Systems"), SDG&E is authorized to collect a royalty of four percent (4%) of the gross revenues (excluding taxes, transportation and returns) from sales of the System and System components developed with SDG&E's IP;
- SDG&E is authorized to collect a royalty of one percent (1%) of gross revenues for pre-existing systems that are merged with products incorporating the SDG&E IP;
- SDG&E is authorized to collect a royalty of one percent (1%) of gross revenues for future GridSense products that incorporate the SDG&E IP;
- SDG&E is authorized to collect a royalty of fifty percent (50%) of gross profit (gross revenue minus direct materials and direct labor) for GridSense products primarily used on the utility side of the house meter that do not fall under one or more of the claims of U.S. Patent No. 8,024,077.
- In addition, after commercialization, SDG&E may purchase licensed products from GridSense at a discount of 10% less than the lowest price at which such products are sold to third parties during the previous 12 months.
- After-tax gains resulting from the above mentioned royalties from the use of the License shall be allocated between ratepayers and shareholders on a 60%/40% basis.<sup>2</sup>
- The License may be terminated if, by the first anniversary of the approval of this agreement, GridSense has not produced a working prototype of

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<sup>2</sup> Ordering Paragraph 4 of Resolution E-4361, approved on January 27, 2011, approves ratepayer/shareholder allocations consistent with D. 08-07-046, which established a ratepayer/shareholder sharing of net revenues from research, development, and deployment programs of 60 percent to ratepayers and 40 percent to shareholders.

System; or if by the second anniversary of the approval of this agreement, GridSense has not produced and made the System commercially available; or, if by the fourth anniversary of the approval of this agreement, GridSense has not achieved aggregate commercial revenues of five hundred thousand dollars (\$500,000).

- GridSense shall pay SDG&E a one-year license fee of one hundred fifty thousand dollars (\$150,000) in any year after the fourth anniversary, in which GridSense does not achieve aggregate cumulative revenues of five hundred thousand dollars (\$500,000).
- The Commission reserves the right to audit the calculation of royalties and any other aspects of the transaction.

SDG&E's proposal is appropriate for review under General Order 96-B General Rules governing all informal matters, in that it does not represent a rate increase, but rather an authorization for a license agreement for any realized gains for the sale of its intellectual property.

## **BACKGROUND**

### **Relationship to current state legislative and regulatory directives**

In D. 08-07-046, the decision on the Test Year 2008 General Rate Cases for SDG&E and Southern California Gas Company, Issued August 1, 2008, the Commission adopted terms of sharing of net revenues related to the research, development and deployment program to split net revenues 60% to ratepayers and 40% to shareholders.<sup>3</sup>

SDG&E invented intellectual property in the course of its ongoing research and development of "Smart Grid" related technologies that may be able to monitor and control electric loads at the consumer level through distribution transformers.

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<sup>3</sup> D. 08-07-046, pg 133 PDF file.

The potential uses of SDG&E's intellectual property, include, but are not limited to monitoring and controlling electric customer load and generation in order to optimize the performance of residential distribution transformers.

The processor is capable of sending a "busy signal" to the customer if the current load is exceeding the loading guidelines, and distributed generation is unavailable. In some configurations, the transformer is placed in a waiting mode if the processor detects a possible transformer overload, whereby the processor is thereby blocked from normal operation. This feature prevents possible overload, thus reducing necessary repair and potentially increasing the life of equipment. The system also provides information to the customer about the status of operations, alerting to potential overload situations.

The intellectual property was invented by SDG&E, but the utility stated it does not believe that, as a regulated utility, it is the best party to develop and market the technology.

#### **Fair market value**

SDG&E stated that the transaction does not include real property or depreciable assets. To determine a fair market value, SDG&E stated that it explored potential development partners through industry contacts. Discussions were held with several potential parties, including General Electric, Siemens, Schneider Electric, Subnet, HCL, and GridSense.

SDG&E stated that despite these discussions with industry parties, the expected value of the transaction is unknown at this time. The ultimate value will be based on revenue levels that GridSense is able to achieve. Given the developmental stage of this product, SDG&E stated that there is no way to determine revenue estimates at this time.

#### **PROTESTS TO THE ADVICE LETTER**

There were no protests filed to the advice letter.

## **DISCUSSION AND APPROVED TERMS**

This Resolution approves the grant of the License, subject to the following terms.

*(1) Terms of royalty of gross revenues from the sale of the System*

SDG&E is authorized to collect a royalty of four percent (4%) of the gross revenues (excluding taxes, transportation and returns) from sales of the System and System components developed with SDG&E's IP.

*(2) Distribution of royalties from the future an/or ongoing use of the License*

SDG&E is authorized to collect a royalty of one percent (1%) of gross revenues for pre-existing systems that are merged with products incorporating the SDG&E IP; and SDG&E is authorized to collect a royalty of one percent (1%) of gross revenues for future GridSense products that incorporate the SDG&E IP;

*(3) Minimum Royalty*

GridSense shall pay SDG&E a one-year license fee of one hundred fifty thousand dollars (\$150,000) in any year after the fourth anniversary of approval of this agreement in which GridSense does not achieve aggregate cumulative revenues of five hundred thousand dollars (\$500,000).

*(4) Termination of License*

The License may be terminated if, by the first anniversary of the approval of this agreement, GridSense has not produced a working prototype of System; or if by the second anniversary of the approval of this agreement, GridSense has not produced and made the System commercially available; or, if by the fourth anniversary of the approval of this agreement, GridSense has not achieved aggregate commercial revenues of five hundred thousand dollars (\$500,000).

*(5) Audit authority*

The Commission agrees to audit the calculation of royalties, but reserves its broad authority to audit other aspects of the transaction as it deems necessary, including verification of all proceeds to SDG&E, and any costs incurred by SDG&E related to the intellectual property.

## **NOTICE**

Notice of AL 2425-E was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section 3.14 of General Order 96-B.

The Commission suspended AL 2425-E on December 12, 2012.

## **COMMENTS AND PROTESTS**

There were no protests to AL 2425-E.

## **COMMENTS**

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

## **FINDINGS AND CONCLUSIONS**

1. SDG&E has developed intellectual property that if fully developed would result in a product that would enhance the ability of the utility to monitor and control electric loads at the consumer level through distribution transformers.
2. SDG&E has reached a tentative agreement with GridSense, Inc. ("Licensee") to transfer an exclusive license to the property.
3. The terms of the agreement relate to the payment of royalties for commercial development and marketing of Systems derived from SDG&E's IP.
4. A proposal for Commission approval of the sale of the license rights to intellectual property to GridSense Inc., pursuant to PU Code S 851, was initially made on SDG&E's own initiative on December 4, 2012, under proposed terms of sale described herein.
5. The grant of the License, and payment of royalties are conditioned upon Commission approval.

6. It is reasonable to approve the terms of the grant of the License, and payment of royalties based on the following schedule:
  - SDG&E is authorized to collect a royalty of four percent (4%) of the gross revenues (excluding taxes, transportation and returns) from sales of the System and System components developed with SDG&E's IP;
  - SDG&E is authorized to collect a royalty of one percent (1%) of gross revenues for pre-existing systems that are merged with products incorporating the SDG&E IP;
  - SDG&E is authorized to collect a royalty of one percent (1%) of gross revenues for future GridSense products that incorporate the SDG&E IP;
  - SDG&E is authorized to collect a royalty of fifty percent (50%) of gross profit (gross revenue minus direct materials and direct labor) for GridSense products primarily used on the utility side of the house meter that do not fall under one or more of the claims of U.S. patent No. 8,024,077.
  - In addition, after commercialization, SDG&E may purchase licensed products from GridSense at a discount of 10% less than the lowest price at which such products are sold to third parties during the previous 12 months.
7. It is reasonable to approve the allocation of royalties on a 60%/40% basis between ratepayers and shareholders based on Commission authorization in D. 08-07-046.

**IT IS ORDERED THAT:**

1. The request of SDG&E for approval of the sale of license rights to intellectual properties to GridSense, Inc., requested in AL 2425-E is approved.
2. Future or ongoing treatment of royalties from the use of the License on a gross basis shall be allocated between ratepayers and shareholders on a 60% / 40% basis.
3. The Commission reserves the right to audit the calculation of royalties and any other aspects of the transaction.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on April 18, 2013; the following Commissioners voting favorably thereon:

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PAUL CLANON  
Executive Director